

# STATE OF CONNECTICUT



*AUDITORS' REPORT  
BOARD OF REGENTS FOR HIGHER EDUCATION  
SYSTEM OFFICE  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2013*

**AUDITORS OF PUBLIC ACCOUNTS**  
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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## AUDITORS OF PUBLIC ACCOUNTS

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December 3, 2015

### **AUDITORS' REPORT BOARD OF REGENTS FOR HIGHER EDUCATION SYSTEM OFFICE FOR THE FISCAL YEARS ENDED JUNE 30, 2012 and 2013**

We have audited certain operations of the Board of Regents for Higher Education System Office in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit is limited to the operations of the system office primarily pertaining to the Connecticut State University System (CSUS) but was not necessarily limited to, the years ended June 30, 2012 and 2013. Certain information pertaining to the CSUS as a whole is included in the report for informational purposes. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions.
2. Evaluate the office's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the office; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed

and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the office's management and was not subjected to the procedures applied in our audit of the office. For the areas audited, we identified

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the system office.

## COMMENTS

### FOREWORD

The Board of Trustees of the Connecticut State University operated primarily under the provisions contained in Sections 10a-87 through 10a-101 of the General Statutes until December 31, 2011. The Board of Regents for Higher Education assumed the duties of the former Board of Trustees of the Connecticut State University on January 1, 2012. There was a transition period from July 1, 2011 to December 31, 2011, during which both boards co-existed.

Pursuant to Section 10a-87 of the General Statutes, the boards, located in Hartford, oversaw Central Connecticut State University, Eastern Connecticut State University, Southern Connecticut State University, and Western Connecticut State University. These institutions are located in New Britain, Willimantic, New Haven and Danbury, respectively.

Section 10a-1a of the General Statutes provides that the Board of Regents for Higher Education consists of 19 members. Nine of the members are appointed by the Governor, four are appointed by legislative leaders, two are appointed by students, and four individuals serve as ex-officio members. The board, among other duties, makes rules and establishes policies for the governance, development and maintenance of the educational programs and services of the state

universities and community colleges. Board members receive no compensation for their services, but are entitled to reimbursement for expenses.

The Board of Regents for Higher Education consisted of the following members as of June 30, 2013:

Ex-Officio Board Members:

Dr. Jewel Mullen, Commissioner of the Department of Public Health  
Stefan Pryor, Commissioner of the Department of Education  
Sharon Palmer, Commissioner of the Department of Labor  
Catherine Smith, Commissioner of the Department of Economic and Community Development

Appointed Members:

Lewis J. Robinson, Jr. Chair	Merle W. Harris
Yvette Melendez, Vice Chair	Gary F. Holloway
Richard J. Balducci	Craig Lappen
Naomi K. Cohen	Rene Lerer
Lawrence DeNardis	Michael E. Pollard
Nicholas M. Donofrio	Eugene L. Bell (student)
Matt Fleury	

Michael Fraser, Alex Tettey, Jr., and Zac Zeitlin also served on the board of regents during the audited period. There was one appointed member vacancy and one student vacancy on the board as of June 30, 2013.

Among the duties of the Board of Regents for Higher Education is the appointment of a chief executive officer. Robert A. Kennedy served as president from September 7, 2011, through October 13, 2012. Philip E. Austin served as interim president from November 2, 2012, until June 27, 2013. Gregory W. Gray served as president from June 28, 2013, until September 28, 2015. Mark Ojakian was appointed president on September 28, 2015.

Sections 211 through 220 and 230 of Public Act 11-48 and Sections 106, 111, 136, and 137 of Public Act 11-61, which both became effective July 1, 2011, reorganized the state system of higher education by establishing a 19-member (including 15-voting members) Board of Regents for Higher Education to serve as the governing body for the Connecticut State University System, the Community-Technical College System (CTC), and Charter Oak State College. These acts allow the board to appoint and remove staff and take responsibility for its operation and that of the constituent units. The Board of Regents for Higher Education replaced the existing CSUS Board of Trustees, the CTC Board of Trustees, and the Board of State Academic Awards, which governed Charter Oak State College.

## Recent Legislation

The following notable legislative change took effect during the audited period.

- Public Act No. 11-43, effective July 1, 2011, expanded in-state tuition benefits to include certain students attending state public higher education institutions, including those without legal immigration status, who reside in Connecticut.
- Public Act No. 11-48, effective July 1, 2011, Section 22 of this act required the state's higher education institutions to work with the Secretary of the Office of Policy and Management (OPM), the Department of Administrative Services (DAS), and the Comptroller to more fully utilize the state's Core-CT information system. Effective July 1, 2011, Sections 211 through 227 and Section 230 of this act consolidated the administration of all of the state's public higher education institutions, except the University of Connecticut, under a new Board of Regents for Higher Education (BOR). Effective January 1, 2012, the BOR replaced the Board of Trustees for the Connecticut State University System (BOT). The BOT, subject to oversight by the BOR, served during the transition period.
- Public Act No. 13-4, effective April 22, 2013, Section 1 of this act modified Section 10a-1b of the General Statutes shifting the responsibility of appointing the president of the BOR from the Governor to the Board of Regents for Higher Education

## Enrollment Statistics

The state university system reported the following enrollment statistics for full-time and part-time students during the audited period:

	<b>Fall 2011</b>	<b>Spring 2012</b>	<b>Fall 2012</b>	<b>Spring 2013</b>
Full-Time Undergraduate	24,556	22,636	23,981	21,991
Full-Time Graduate	1,682	1,551	1,575	1,452
Total Full-Time	26,238	24,187	25,556	23,443
Part-Time Undergraduate	5,393	5,150	5,327	5,220
Part-Time Graduate	4,416	4,103	3,941	3,932
Total Part-Time	9,809	9,253	9,268	9,152
<b>Total Enrollment</b>	<b>36,047</b>	<b>33,440</b>	<b>34,824</b>	<b>32,595</b>

The average of the fall and spring semesters' total enrollment was 34,744 and 33,710 during the 2011-2012 and 2012-2013 fiscal years respectively, compared to an average of 35,591 during the 2010-2011 fiscal year. The total average number of enrolled students decreased by 848 (2.4 percent) from fiscal year 2011 to 2012 and 1,034 (3 percent) from 2012 to 2013.

## **RÉSUMÉ OF OPERATIONS**

During the audited period, operations of the system office were primarily supported by appropriations from the state's General Fund and by tuition and fees credited to the State University Operating Fund.

### **Operating Revenues**

Operating revenues are derived from the sale or exchange of goods or services that relate to the system office's educational and public service activities.

Operating revenues as presented in the system office's audited financial statements for the audited period and the previous fiscal year follow:

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Tuition and Fees (net of scholarship allowances)	\$31,818,359	\$30,899,147	\$30,898,665
Federal Grants and Contracts	(166,955)	-	-
State and Local Grants and Contracts	7,500	-	-
Auxiliary Revenues	4,495,258	4,115,141	4,242,414
Other Sources	<u>8,343,982</u>	<u>8,907,545</u>	<u>8,547,937</u>
Total Operating Revenues	<u>\$44,498,144</u>	<u>\$43,921,833</u>	<u>\$43,689,016</u>

Operating revenues totaled \$43,921,833 and \$43,689,016 during the fiscal years ended June 30, 2012 and 2013, respectively, compared to \$44,498,144 during the fiscal year ended June 30, 2011. The \$576,311 (1.3 percent) decrease from fiscal year 2011 to 2012 can be primarily attributable to the reduction in amount of tuition and fees, which was caused by a decrease in enrollment.

### **Operating Expenses**

Operating expenses generally result from payments made for goods and services to achieve the system office's mission of instruction and public service. Operating expenses include employee compensation and benefits, professional services, supplies, and depreciation among others.

Operating expenses as presented in the system office's audited financial statements for the audited period and the previous fiscal year follow:

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Personal Service and Fringe Benefits	\$9,480,681	\$8,295,469	\$8,378,196
Professional Services and Fees	1,789,518	1,570,221	2,080,077
Educational Services and Support	9,400	7,907	4,070
Travel Expenses	56,090	34,740	75,124
Operation of Facilities	7,222,840	11,667,615	12,444,914
Other Operating Supplies and Expenses	2,588,758	2,832,498	2,896,136

Depreciation Expense	<u>1,633,312</u>	<u>1,721,652</u>	<u>1,693,260</u>
Total Operating Expenses	<u>\$22,780,599</u>	<u>\$26,130,102</u>	<u>\$27,571,777</u>

Operating expenses totaled \$26,130,102 and \$27,571,777 during the fiscal years ended June 30, 2012 and 2013, respectively, compared to \$22,780,599 during the fiscal year ended June 30, 2011. These amounts reflect an increase of \$3,349,503 (14.7 percent) in fiscal year 2012 and an increase of \$1,441,675 (5.5 percent) in 2013. The increase in operating expenses during the audited period was due in large part to an increase in capital projects that had been recorded in the Operation of Facilities category.

### **Non-operating Revenues**

Non-operating revenues are not from the sale or exchange of goods or services that relate to the system office's primary functions of instruction, academic support and student services. Non-operating revenues include items such as the state's General Fund appropriation, investment income and interest expense.

Non-operating revenues as presented in the system office's financial statements for the audited period and the previous fiscal year follow:

	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
State Appropriations	\$8,870,083	\$7,699,968	\$7,596,253
Investment Income	788,232	742,300	758,959
Interest Expense	<u>(11,850,820)</u>	<u>(11,571,946)</u>	<u>(10,299,777)</u>
Total Non-operating Revenues	<u>\$(2,192,505)</u>	<u>\$(3,129,678)</u>	<u>\$(1,944,565)</u>

Non-operating revenues totaled \$(3,129,678) and \$(1,944,565) during the fiscal years ended June 30, 2012 and 2013, respectively, compared to \$(2,192,505) during the fiscal year ended June 30, 2011. The \$937,173 (42.7 percent) decrease from fiscal year 2011 to 2012 can be primarily attributable to a decrease in state appropriations received by the system office. The \$1,272,169 (37.9 percent) increase from fiscal year 2012 to 2013 was the result from an increase in interest expense.

In addition to the operating and non-operating revenues presented above, the system office's financial statements also presented revenues classified as state appropriations restricted for capital purposes totaling \$593,712 and \$1,189,274 for the fiscal years ended June 30, 2012 and 2013, respectively.

### **Dormitory Debt Service Fund**

This fund is used to account for costs associated with Connecticut State University long-term debt. Such long-term debt includes both self-liquidating state general obligation and revenue bonds issued to fund certain Connecticut State University capital projects and bonds issued by the Connecticut Health and Educational Facilities Authority (CHEFA).

Operating transfers, per records of the Office of the State Comptroller, into the fund totaled \$34,551,240 and \$34,284,908 during the fiscal years ended June 30, 2012 and 2013, respectively. Payments for principal retirement and interest charges totaled \$30,007,537 and \$27,887,018 during those respective fiscal years. Resources accumulated in the fund to cover future debt service requirements totaled \$62,717,867 and \$69,205,542, as of June 30, 2012 and 2013, respectively.

Self-liquidating state general obligation bonds are bonds for which it has been determined that the portion of the costs attributable to certain projects funded by the issuances, such as dormitory renovation, should be covered by associated revenues. Though the bonds are liquidated from the resources of the General Fund, the General Fund is reimbursed for the associated costs. The Connecticut State University's liability for such issuances was determined to be \$6,289,071 and \$3,538,313, as of June 30, 2012 and 2013, respectively.

CHEFA, which operates primarily under the provisions contained in Chapter 187 of the General Statutes, was created to assist higher education and health care institutions, nursing homes and qualified nonprofit organizations in the construction, financing and refinancing of projects. Outstanding CHEFA bonds issued on behalf of the Connecticut State University totaled \$257,755,000 and \$278,355,000 as of June 30, 2012 and 2013, respectively.

**Connecticut State University System Foundation, Inc.**

The Connecticut State University System Foundation, Inc. is a private nonprofit corporation established to raise funds to support the Connecticut State University System. The foundation is a legal entity separate and distinct from the board of regents and is governed by a board of directors.

Sections 4-37e through 4-37k of the General Statutes define and set requirements for organizations that support state agencies. The requirements address the annual filings of an updated list of board members with the state agency for which the foundation was established; financial record keeping and reporting in accordance with generally accepted accounting principles; financial statement and audit report criteria; written agreements concerning the use of facilities and resources; compensation of state officers or employees; and the state agency's responsibilities with respect to affiliated foundations.

An audit of the books and accounts of the foundation was last performed by an independent certified public accounting firm for the fiscal year ended June 30, 2011, in accordance with Section 4-37f subsection (8) of the General Statutes. The auditor expressed an unqualified opinion on the foundation's financial statements for the fiscal year. In addition, the foundation's audit report disclosed no reportable instances of noncompliance with Sections 4-37e through 4-37j of the General Statutes. We were provided with the financial statements on the foundation operations for each of the audited years.

The foundation's financial statements reported support and revenue totaling \$22,473 and \$58,653 during the fiscal years ended June 30, 2012 and 2013, respectively. Net assets were reported at \$378,639 and \$420,210 as of June 30, 2012 and 2013, respectively.

## STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

### Employee Medical Certificates

- Criteria:* Section 5-247-11 of the State Regulations requires the submission of an acceptable medical certificate signed by a licensed physician or other practitioner whose method of healing is recognized by the state to substantiate the use of sick leave for a period of more than five consecutive working days.
- Condition:* From a sample of five medical certificates, we noted one instance in which an acceptable medical certificate, supporting an employee's use of more than five consecutive sick leave days, was not on file.
- Effect:* There is a lack of compliance with state regulations and an increased risk that sick leave abuse may go undetected.
- Cause:* The system office did not adequately monitor employee usage of sick leave for compliance with established medical certificate requirements.
- Recommendation:* The Board of Regents for Higher Education should take steps to ensure compliance with Section 5-247-11 of the State Regulations by obtaining an acceptable medical certificate for employees that use sick leave for a period of more than five consecutive working days. (See Recommendation 1.)
- Agency Response:* "The Board of Regents for Higher Education (BOR) agrees and there will be communication sent to supervisors to remind them of the medical certificate regulations."

### Dual Employment

- Criteria:* Section 5-208a of the General Statutes indicates that no state employee shall be compensated for services rendered to more than one state agency during a biweekly pay period unless the appointing authority of each agency or a designee certifies that the duties performed are outside the responsibility of the agency of principal employment, that the hours worked at each agency are documented and reviewed to preclude duplicate payment, and that no conflicts of interest exist between services performed.
- The Department of Administrative Services General Letter 204 – Dual Employment, last revised in 1999, provides direction to state agencies in

complying with Section 5-208a of the General Statutes. A Dual Employment Request form (PER-DE-1) should be completed by the employee's secondary and primary agency as prescribed in General Letter 204.

*Condition:* From a sample of two employees identified with a dual employment arrangement, we noted in both instances that the agency did not have a complete dual employment form on file. In both instances, the dual employment form on file lacked the primary agency's certification.

*Effect:* The system office is not in compliance with Section 5-208a of the General Statutes. In the absence of proper monitoring, duplicate payments and conflicts of interest may go undetected.

*Cause:* It appears to have been an administrative oversight.

*Recommendation:* The Board of Regents for Higher Education should comply with Section 5-208a of the General Statutes and state dual employment policies to appropriately monitor dual employment situations (See Recommendation 2.)

*Agency Response:* "The BOR agrees and will correct the administrative oversight."

## **Procurement**

*Criteria:* Section 4-252, subsection (c), of the General Statutes and Governor Rell's Executive Orders No. 1 and 7c require that a contractor doing business with a state agency provide a Gift and Campaign Contribution Certification at the time of contract execution and annually thereafter if such contract has a value of \$50,000 or more in a calendar or fiscal year.

Section 10a-151b of the General Statutes governs the purchase of equipment, supplies, contractual services, and execution of personal service agreements by constituent units of higher education.

The Connecticut State University Procurement Manual requires that all purchases are properly approved before a purchase is completed. Such approval should be documented via a properly approved purchase requisition and purchase order.

*Condition:* We tested a sample of 25 purchases during the audited period and noted the following exceptions:

- Five instances of multi-year contracts that exceeded \$50,000 in a calendar or fiscal year in which the agency did not obtain the required

annual Gift and Campaign Contribution Certification after the contract was executed and the initial certification was signed. In addition, in one of these instances, the multi-year sole source contract did not obtain the initial certification.

- Two instances in which services were ordered and received before the issuance of a purchase requisition and purchase order.

*Effect:* The system office was not in compliance with established annual certification requirements.

The lack of documented prior approval of purchases increases the risk that unauthorized or improper purchases will occur.

*Cause:* With respect to the cases cited, established control procedures in the area of procurement were not adequately carried out.

*Recommendation:* The Board of Regents for Higher Education should ensure that affidavits and certifications are obtained in compliance with regulations related to state university purchasing. Furthermore, the board should take steps to ensure that purchases are initiated only after an approved purchase order is in place. (See Recommendation 3)

*Agency Response:* “The BOR agrees and corrective action will be taken to ensure certifications are obtained and approvals are obtained prior to initiating purchases.”

### **Consolidation of the System’s Purchasing Process**

*Background:* In our prior audit report for the 2009-2010 and 2010-2011 fiscal years, we recommended that the system office comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process at the system office, or seek legislative relief from the requirements of this section.

*Criteria:* Section 10a-89e of the General Statutes states, “The Board of Trustees for the CSU System shall consolidate the purchasing process for the system at the central office.”

*Condition:* Some purchasing procedures for the State University System have been centralized at the system office. These include training in the purchasing function, implementation of certain uniform purchasing procedures on a system-wide basis, and some procurement of goods or services at each of the state universities through contracts that were

originated at the system office. However, each of the four state universities continue to maintain significant purchasing resources on campus, and most purchasing-related procedures are still performed locally, rather than at the system office.

*Effect:* The system office is not in compliance with Section 10a-89e of the General Statutes.

*Cause:* Due to the recent consolidation of the administration of the state's public higher education institutions under the new Board of Regents for Higher Education, these requirements have not been implemented. A representative of the agency informed us that further consolidation is currently being evaluated.

*Recommendation:* The Board of Regents for Higher Education should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the system office, or seek legislative relief from the requirements of this section. (See Recommendation 4.)

*Agency Response:* "The BOR agrees and is in the process of hiring a Purchasing Director to begin the process of complying with Section 10a-89e."

## **Property Control**

*Criteria:* The Connecticut State University System's Capital Valuation and Asset Management Manual provides policies and procedures for physical and reporting controls over capital assets.

*Condition:* Our examination of the system office's internal controls over property disclosed the following:

- From a sample of 25 equipment items purchased during the audited period, one item was found in a location other than the location reported on the inventory records. Upon becoming aware of the exception, the agency updated their inventory records with the current location of the asset.
- From a sample of 30 equipment items selected from the inventory records, five items were found in locations other than the location reported on the inventory records. Upon becoming aware of the exceptions, the agency updated their inventory records with the current location of the assets.

- Effect:* The system office's property control records are not in compliance with established policies and procedures. The conditions described above weaken internal control over equipment and increase the likelihood that the loss of equipment may occur and not be detected by management in a timely manner.
- Cause:* A system office representative informed us that the conditions noted above were the result of the Property Control Unit not being notified of the change in the location of these assets by the responsible department.
- Recommendation:* The Board of Regents for Higher Education should improve internal controls over equipment inventory by following the policies and procedures established by the Connecticut State University System's Capital Valuation and Asset Management Manual. (See Recommendation 5.)
- Agency Response:* "The BOR agrees and will implement additional controls to track asset moves."

### **Construction Projects Administered by the Agency**

- Criteria:* Section 3-21d of the General Statutes states that the chief administrative officer of each agency, which manages agency-administered projects in excess of \$10,000, and received funds from the proceeds of bonds issued under the State General Obligation Bond Procedure Act, must file a completion/status report with the secretary of the State Bond Commission no later than 90 days following completion of the project.
- The Department Administrative Services - Division of Construction Services (DAS-DCS) Agency Administered Projects Procedure Manual sets forth the specific requirements for agency administered construction projects.
- Condition:* Our audit of two construction projects administered by the agency, disclosed two instances in which the required completion/status report for a bond funded project was not filed with the secretary of the State Bond Commission after the project was completed.
- Effect:* The system office did not comply with the reporting requirements established by Section 3-21d of the General Statutes.
- Cause:* We were informed that this was an administrative oversight during a period when the agency experienced some staffing changes.

*Recommendation:* The Board of Regents for Higher Education should comply with established policies and procedures and improve internal control over agency administered projects by submitting the required reports. (See Recommendation 6.)

*Agency response:* “The BOR agrees and will comply.”

### **Software Inventory**

*Criteria:* The State Property Control Manual states that “a software inventory must be established by all agencies to track and control all of their software media, licenses or end user license agreements, certificates of authenticity, documentation and related items.” The manual further states that “each agency will produce a software inventory report on an annual basis... A physical inventory of the software library, or libraries, will be undertaken by all agencies at the end of each fiscal year and compared to the annual software inventory report. This report will be retained by the agency for audit purposes.”

*Condition:* The system office did not maintain a central inventory to track and control all its software during the audited period.

During the audited period, it appears the system office disposed of all 1,190 software media items that were reported on their June 30, 2011 inventory, without proper documentation or authorization.

*Effect:* The system office was not in compliance with software inventory requirements contained in the State Property Control Manual.

*Cause:* We were informed that during the recent consolidation of the administration of the state’s public higher education institutions, certain administrative functions were shifted among different personnel. During this transition, the agency did not comply with certain required reporting requirements.

*Recommendation:* The Board of Regents for Higher Education should improve internal controls over software inventory and comply with the requirements contained in the State Property Control Manual. (See Recommendation 7.)

*Agency Response:* “The BOR agrees and will take steps to improve the software inventory controls.”

## **Information Technology Disaster Recovery**

*Criteria:* Sound business practices include provisions that require organizations to have current information technology disaster recovery plans in place to enable critical operations to resume activity within a reasonable period should a disaster occur.

Section 2.6 of the Connecticut State University System Office Information Technology Disaster Recovery Plan states, a combination of structured walk-through testing and checklist testing will be performed with plan updates and on an annual basis. It further states, simulation testing will occur biennially.

*Condition:* Based on our review of the information technology disaster recovery plan at the system office, we noted that it did not review or test its plan since the plan was developed in August 2010.

*Effect:* In the event of a system catastrophe, the lack of an up-to-date information technology disaster recovery plan may reduce the likelihood of resuming critical operations in a timely fashion.

*Cause:* We were informed that during the recent consolidation of the administration of the state's public higher education institutions, certain administrative functions were shifted among different personnel. During this transition, the agency did not follow their established information technology disaster recovery plan.

*Recommendation:* The Board of Regents for Higher Education should follow its established information technology disaster recovery plan and review and test such plan to ensure that it is operational and effective in the event of a disaster. (See Recommendation 8.)

*Agency Response:* "The BOR agrees and will be updating and testing the disaster recovery plan."

## **Information System Access Controls**

*Background:* The system office primarily uses an electronic information system, known as Banner, to maintain its accounting records.

The system office is considered a limited scope agency in relation to the Connecticut state government's centralized financial and administrative information system, Core-CT, which the system office uses primarily to process payroll and human resources data.

*Criteria:* In order to ensure system integrity, all access to the information systems should be disabled promptly upon termination of employment.

Sound internal controls require a supervisor to review and approve a subordinate's access and permissions to information systems.

*Conditions:* Our review of information system access for the system office, noted the following:

- Three instances in which an employee's Banner account privileges were not promptly deactivated upon the employee's separation from agency employment. In these instances, Banner access remained active from five to 164 days after the employees separated from system office employment.
- Two instances in which an employee's Core-CT account privileges were not promptly deactivated upon the employee's separation from agency employment. In these instances, Core-CT access remained active from 34 to 291 days after the employees separated from system office employment.
- One instance in which a database administrator had the authority to create and/or modify their own Banner access privileges without any documented supervisory review.

*Effect:* Unnecessary or inappropriate access to information systems could increase the risk of data system errors and fraud.

*Cause:* Existing controls did not, at times, promote the timely deactivation of information system access.

The system office did not have policies and procedures addressing the granting of Banner access privileges for database administrators.

*Recommendation:* The Board of Regents for Higher Education should promptly deactivate information system access upon an employee's separation from system office employment. In addition, the board should develop policies and procedures to ensure that any new or modified Banner access privileges for database administrators are approved by the appropriate level of management. (See Recommendation 9.)

*Agency Response:* "The BOR agrees and will comply."

## **Core-CT – Segregation of Duties**

*Criteria:* Access to information systems should be limited to only appropriate employees who need such access to perform their duties.  
A good internal control system requires a separation of duties among employees so that certain functions, such as authorizing, recording, and reviewing transactions, are not performed by the same employee.

The Core-CT Security Liaison Guide provides guidance as to which functions are included among the duties that should be separated in order to reduce the risk of error or fraud.

*Condition:* Our review of the system office's Core-CT access privileges during the audited period, disclosed the following conditions:

- Three Human Resources Department employees were provided Agency HR Specialist, Agency Payroll Specialist, and Agency Time and Labor Specialist roles in the state's Core-CT information system. As such, these employees had write access to both the Core-CT human resources and payroll systems, which enabled them to both add people to the payroll system and process payroll payments to them. Upon becoming aware of the condition, the agency removed one of the employee's conflicting roles, and another employee is no longer employed by the system office.
- Four Finance Department employees were provided CT Billing Processor and CT Receivable Processor roles. These employees have the ability to create customers and apply payment to the customers.
- One former Finance Department employee was transferred to the Human Resources Department. At the time of the employee's transfer, certain financial roles were not removed when they were no longer necessary. Upon becoming aware of the condition, the agency removed this employee's financial roles.

*Effect:* Unnecessary or inappropriate access to information systems could increase the risk of data system errors and fraud.

*Cause:* We were informed that during the recent consolidation of the administration of the state's public higher education institutions, certain administrative functions were shifted among different personnel. During this transition, certain Core-CT access privileges were not reviewed to ensure that the roles assigned were limited to the employees' new job responsibilities.

Regarding the four Finance Department employees, an agency representative informed us that the segregation of duties issues were addressed with the Office of the State Comptroller in 2011 when the financial roles were reviewed. However, we were not provided any documentation to support this assertion.

*Recommendation:* The Board of Regents for Higher Education should remove its Core-CT access privileges for certain employees to improve the segregation of duties. If the agency deems such access is necessary and required, a compensating control system should be developed, documented and periodically reviewed. (See Recommendation 10.)

*Agency Response:* “The BOR agrees and will review Core-CT access privileges or apply proper compensating controls.”

### **Internal Control Self-Evaluation**

*Criteria:* The State Comptroller’s Internal Control Guide requires all state agencies to perform an internal control self-assessment to be completed by June 30th of each fiscal year.

*Condition:* Our review of the system office’s annual internal control self-evaluation for the fiscal years ended June 30, 2012 and 2013 disclosed that the data processing section was not completed. In addition, the required confirmation of completion certification for the audit years was not completed. Upon becoming aware of the conditions, the agency completed and provided the data processing section on March 26, 2014. In addition, the required confirmation of completion certification was completed and provided on June 13, 2014.

*Effect:* There was non-compliance with the State Comptroller’s Internal Control Guide, thereby increasing the risk that internal control weaknesses could go undetected.

*Cause:* We were informed that during the recent consolidation of the administration of the state’s public higher education institutions, certain administrative functions were shifted among different personnel. During this transition, the agency did not fully comply with these reporting requirements.

*Recommendation:* The Board of Regents for Higher Education should perform the annual internal control self-evaluation and risk assessment in accordance with the Internal Control Guide issued by the State Comptroller. (See Recommendation 11.)

*Agency Response:* “The BOR agrees and will review internal controls annually.”

### **Other Audit Examination**

The Board of Regents for Higher Education has entered into agreements with a public accounting firm to conduct certain auditing and consulting services on an annual basis, including an audit of the combined financial statements of the Connecticut State Colleges and University System. As part of its audit work, the firm has made an annual study and evaluation of the system’s internal controls to the extent deemed necessary to express an audit opinion on the financial statements. Certain matters involving internal controls have been included in an annual report to management accompanying the audited financial statements.

A summary of the recommendations pertaining to the Connecticut State University System Office in the Report to Management for the 2012-2013 fiscal year is presented below:

General:

- Perform an overall risk assessment of the recently merged community colleges and state universities. The risk assessment should focus its efforts on financial reporting. Management should also consider making an evaluation of top risks identified to date and ensure that appropriate procedures and processes are in place to address these items.

Information technology:

- Formalize and establish a periodic review of the individuals who have physical access to the data center located at 61 Woodland Street, which is managed by the State of Connecticut Department of Construction Services. This data center supports the CSU System Office and Community College instances of the Banner application.

## RECOMMENDATIONS

Our prior report contained six recommendations. There has been satisfactory resolution of two of these recommendations. The remaining four recommendations have been repeated or restated to reflect current conditions. Seven additional recommendations are being presented as a result of our current examination.

### *Status of Prior Audit Recommendations:*

- The system office should comply with established contracting policies and procedures to ensure that all required annual Gift and Campaign Contribution Certifications forms are obtained. Our current audit disclosed similar instances of noncompliance. The recommendation is being repeated with modification. (See Recommendation 3.)
- The system office should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the system office, or seek legislative relief from the requirements of this section. Our current review disclosed that no further action has been taken so we are repeating this recommendation with modification. (See Recommendation 4.)
- The system office should improve the timeliness of its bank deposits by adhering to the prompt deposit requirements of Section 4-32 of the General Statutes. Improvement was noted. The recommendation is not being repeated.
- The system office should comply with the Connecticut State University System's Capital Valuation and Asset Management Manual and improve control over equipment inventory. Our current audit disclosed similar instances of noncompliance. The recommendation is being repeated with modification. (See Recommendation 5.)
- The system office should comply with Section 4-33a of the General Statutes, which requires that the Auditors of Public Accounts and the Office of the State Comptroller be notified immediately of all losses/damages to state property upon discovery. Improvement was noted. The recommendation is not being repeated.
- The system office should disable all computer access to Core-CT promptly upon an individual's termination of employment or when such access is no longer required. The system office should improve internal control over system access to Core-CT by updating its control policies, to address the lack of separation of duties between the payroll and human resource functions of Core-CT. Our current audit disclosed similar instances of noncompliance. The recommendation is being repeated with modification. (See Recommendations 9 and 10.)

*Current Audit Recommendations:*

- 1. The Board of Regents for Higher Education should take steps to ensure compliance with Section 5-247-11 of the State Regulations by obtaining an acceptable medical certificate for employees that use sick leave for a period of more than five consecutive working days.**

Comment:

We noted an instance in which an acceptable medical certificate was not on file to support an employee's use of more than five consecutive sick leave days.

- 2. The Board of Regents for Higher Education should comply with Section 5-208a of the General Statutes and state dual employment policies to appropriately monitor dual employment situations.**

Comment:

In two instances of employees who held multiple state positions, the agency did not have a complete dual employment form on file.

- 3. The Board of Regents for Higher Education should ensure that affidavits and certifications are obtained in compliance with regulations related to state university purchasing. Furthermore, the board should take steps to ensure that purchases are initiated only after an approved purchase order is in place.**

Comment:

We noted a number of instances in which multi-year contracts that exceeded \$50,000 in a calendar or fiscal year, did not have one of the required annual gift and campaign certifications on file. In addition, we noted two instances in which services were ordered and received before the issuance of a purchase requisition and purchase order.

- 4. The Board of Regents for Higher Education should comply with the requirements of Section 10a-89e of the General Statutes, which requires consolidation of the purchasing process for the system at the system office, or seek legislative relief from the requirements of this section.**

Comment:

Each of the four state universities continue to maintain significant purchasing resources on campus, and most purchasing-related procedures are still performed locally, rather than at the system office.

- 5. The Board of Regents for Higher Education should improve internal controls over equipment inventory by following the policies and procedures established by the Connecticut State University System’s Capital Valuation and Asset Management Manual.**

Comment:

Our examination of the system office’s internal controls over property disclosed a significant number of equipment items found in locations other than as reported on the inventory records.

- 6. The Board of Regents for Higher Education should comply with established policies and procedures and improve internal control over agency administered projects by submitting the required reports.**

Comment:

Our audit of two construction projects administered by the agency disclosed two instances in which the required completion/status report for a bond funded project was not filed with the secretary of the State Bond Commission after the project was completed.

- 7. The Board of Regents for Higher Education should improve internal controls over software inventory and comply with the requirements contained in the State Property Control Manual.**

Comment:

The system office did not maintain a central inventory to track and control all of its software during the audited period.

- 8. The Board of Regents for Higher Education should follow its established information technology disaster recovery plan and review and test such plan to ensure that it is operational and effective in the event of a disaster.**

Comment:

Our review of the information technology disaster recovery plan at the system office, disclosed that they did not review or test their plan since it was developed in August 2010.

- 9. The Board of Regents for Higher Education should promptly deactivate information system access upon an employee’s separation from system office employment. In addition, the board should develop policies and procedures to ensure that any new or modified Banner access privileges for database administrators are approved by the appropriate level of management.**

Comment:

We noted various instances in which information system access was not promptly deactivated upon separation from state service. Additionally, we noted an instance in which a database administrator had the authority to create and/or modify their own Banner access privileges without any documented supervisory review.

**10. The Board of Regents for Higher Education should remove its Core-CT access privileges for certain employees to improve the segregation of duties. If the agency deems such access is necessary and required, a compensating control system should be developed, documented and periodically reviewed.**

Comment:

We identified three employees in the Human Resources Department that held incompatible specialist roles in both the Core-CT human resources and payroll systems, which gave them the ability to add people to the payroll and process payments to them. In addition, we noted that four employees in the Finance Department held incompatible roles in the Core-CT billing system, which gave them the ability to create customers and apply payments to the customers.

**11. The Board of Regents for Higher Education should perform the annual internal control self-evaluation and risk assessment in accordance with the Internal Control Guide issued by the State Comptroller.**

Comment:

Our review of the system office's annual internal control self-evaluation for the fiscal years ended June 30, 2012 and 2013 disclosed that the data processing section was not completed. In addition, the required confirmation of completion certification for the audit years was not completed. Upon becoming aware of the condition, the agency completed and provided the completed sections and certifications.

**CONCLUSION**

We wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Board of Regents for Higher Education during the course of this examination.



Walter J. Felgate  
Principal Auditor

Approved:



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts